

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE APPLICATION OF HAROLD TELEPHONE)
COMPANY, INC., TO CONSIDER CHANGES)
WITH RESPECT TO THE EXPENSING OF) CASE NO. 8341
STATION CONNECTIONS RESULTING FROM)
THE AMENDMENT OF THE UNIFORM SYSTEM)
OF ACCOUNTS)

O R D E R

On September 17, 1981, the Kentucky Telephone Association ("KTA"), on behalf of Harold Telephone Company, Inc., ("Applicant") and 16 other telephone companies, filed a request that the Commission establish a generic docket to consider changes resulting from the amendment of Part 31 of the Uniform System of Accounts for telephone companies with respect to the expensing of station connections. After considering this request, the Commission has determined that a separate docket should be established for each telephone utility which has applied.

On October 14, 1979, the Federal Communications Commission ("FCC") released a notice of proposed rulemaking wherein it proposed to amend Part 31 of the Rules and Regulations to modify the accounting treatment afforded station connections. Station connections include the labor, materials

(primarily wiring), supplies, and other items involved in the installation, disconnection, and reconnection of equipment necessary to connect the customer to the telephone network.

On March 31, 1981, the FCC, in its first report and order in Docket No. 79-105, ordered that inside wiring costs associated with station connections should no longer be capitalized but expensed. In order to implement this change, the FCC directed that the existing station connection account, Account 232, be divided and maintained in two separate subaccounts entitled "inside wiring" and "other". The FCC further directed that the investment assigned to the inside wiring subaccount be expensed and that portion in subaccount "other" be capitalized.

Prior to this FCC decision, all station connection costs were capitalized in Account 232. This allowed a new customer to enter the system at a price lower than the total cost of installation, with the remaining costs being financed by and recovered from the general subscriber body. As the cost of labor and overhead increased and the population moved more frequently, the balance in this account grew dramatically.

The FCC ordered all carriers subject to its jurisdiction to commence the expensing of all current station connection costs on October 1, 1981. However, being concerned about the burden which would be placed upon such carriers and

regulatory agencies as a consequence of immediate implementation, the FCC ordered the carriers to elect between phasing in the expensing over a four-year period or flash cutting the entire cost immediately. However, the FCC order required the carriers to obtain state regulatory agency approval before implementing the flash cut procedure.

Although the FCC has no ratemaking jurisdiction in the intrastate arena, this Commission has recognized these changes as appropriate. In its decisions in South Central Bell Telephone Company, Case No. 8150, General Telephone Company of Kentucky, Case No. 8045, Cincinnati Bell, Inc., Case No. 8174, and Continental Telephone Company of Kentucky, Case No. 8182, the Commission adopted the phase-in approach for expensing the current cost of new connections, in order to reduce the immediate impact on the ratepayer and to provide for gradual implementation of this accounting change. The Commission finds no compelling reasons to reconsider its policy in this case.

FINDINGS OF FACT

(1) Applicant's request for a general docket in this matter should be denied, since the Commission has adopted the "phase-in" approach for telephone companies within its jurisdiction;

(2) Consistent with its decisions in other recent telephone cases, the Commission will grant the Applicant the opportunity to file tariffs on or after October 1, 1981, 1982, 1983 and 1984 to recover the increase in operating costs caused by the expensing of station connections. These annual filings are limited specifically to station connection expense increases. Applicant must demonstrate, based on actual results adjusted solely for the effect of rate increases, that absorption of these increased costs would result in its inability to achieve the return on equity allowed in its most recent rate order; and

(3) Should Applicant decide to file tariffs in accordance with Finding No. 2 of this Order, it must file financial data which demonstrates the revenue impact of the phase-in approach, proposed tariffs designed to recover increased revenue requirements, and prefiled testimony which at a minimum must provide cost support for the proposed tariffs. As a guide, Appendix "A" to this Order contains a suggested technique for estimating the impact on the revenue requirement of expensing station connection expenses, and Appendix "B" contains a sample industry study of Account 232 cost analysis. Applicant may substitute a different method if it so desires.

IT IS THEREFORE ORDERED that the application of Harold Telephone Company, Inc., made through the Kentucky Telephone Association as filed on September 17, 1981, for a generic docket in the matter of the expensing of station connections, be and it hereby is denied.

IT IS FURTHER ORDERED that on and after October 1, 1981, Harold Telephone Company, Inc., shall adopt the phase-in approach to the expensing of station connections, and shall maintain its records in Account 232 of the Uniform System of Accounts as directed by the FCC in its Order of March 31, 1981, in Docket No. 79-105.

IT IS FURTHER ORDERED that Harold Telephone Company, Inc., be and it hereby is granted the authority to file tariffs to recover the increase in operating costs caused by the expensing of station connections in accordance with Findings No. 2 and 3 of this Order.

Done at Frankfort, Kentucky, this 28th day of September, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katherine Landall
Vice Chairman

ATTEST:

Don Carver
Commissioner

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8341, DATED SEPTEMBER 28, 1981

This attachment is a suggested technique for estimating the impact on the revenue requirement of expensing station connection expenses. Your company may substitute a different method if you choose.

Account 232 must be separated. The companies which have the cost already separated should use the recorded amounts. The companies which do not have the account separated must use one of the following three methods:

1. Conduct a new time and motion study.
2. Use an existing study.
3. Use the attached industry study.

A copy of the study should be attached and filed with the study results.

- A. As of year end 1980 (or more current period, if available) show separately the amounts for:
 - a. Plant in service for station connections--inside wire
 - b. Plant in service for station connections--other
 - c. Depreciation reserve for station connections--inside wire
 - d. Depreciation reserve for station connections--other

For expediency purposes, the reserve should be apportioned in the same manner as plant in service for Account 232. If the present reserve for Account 232 is negative, the negative amount should be assigned to station connections--inside wire and the reserve for station connections--other set at zero.

Projected Station

Connections-Inside Wire (3)

-Other

-Total

| Year 1 | Year 2 | Year 3 | Year 4 |
|-----------|-----------|-----------|-----------|
| \$ X | \$ X | \$ X | \$ X |
| <u>W</u> | <u>W</u> | <u>W</u> | <u>W</u> |
| <u>XW</u> | <u>XW</u> | <u>XW</u> | <u>XW</u> |

C. Projected station connection expenses - Four Year Phase-in (The abbreviation SC-I refers to Station Connections-Inside Wire.)

| Line No. | Description | Year 1 | Year 2 | Year 3 | Year 4 |
|----------|--|--------------|--------------|--------------|--------------|
| 1 | Annual depreciation expense for account 232 at present rates | \$ Z | \$ Z | \$ Z | \$ Z |
| 2 | Less: Depreciation on SC-Other (1) | (Y) | (Y) | (Y) | (Y) |
| 3 | Subtotal | <u>\$ ZY</u> | <u>\$ ZY</u> | <u>\$ ZY</u> | <u>\$ ZY</u> |
| 4 | Embedded SC-I (2) times 10% | \$ T | \$ T | \$ T | \$ T |
| 5 | Year 1 SC-I additions (3) times .75 times 10% = A | 1/2A | A | A | A |
| 6 | Year 2 SC-I additions (3) times .50 times 10% = B | | 1/2B | B | B |
| 7 | Year 3 SC-I additions (3) times .25 times 10% = C | | | 1/2C | C |
| 8 | New depreciation SC-I | <u>TD</u> | <u>TD</u> | <u>TD</u> | <u>TD</u> |
| 9 | Increase (decrease) depreciation: L8-L3 | <u>\$ ZX</u> | <u>\$ ZX</u> | <u>\$ ZX</u> | <u>\$ ZX</u> |
| 10 | Year 1-SC-I additions (3) times .25 | \$ D | | | |
| 11 | Year 2 SC-I additions (3) times .50 | | \$ E | | |
| 12 | Year 3 SC-I additions (3) times .75 | | | \$ F | |
| 13 | Year 4 SC-I additions (3) times 1 | | | | \$ G |
| 14 | Cost of removal | H | I | J | K |
| 15 | Salvage | L | M | N | O |
| 16 | Cost of reconnects & reinstalls | <u>P</u> | <u>O</u> | <u>R</u> | <u>S</u> |
| 17 | Impact of expensing SC-I each year (L10 through L16) | <u>\$ DX</u> | <u>\$ EX</u> | <u>\$ FX</u> | <u>\$ GX</u> |
| 18 | Total impact - four year phase in (L17 plus L9) | <u>\$ XZ</u> | <u>\$ XZ</u> | <u>\$ XZ</u> | <u>\$ XZ</u> |

- (1) Use 5% rate times SC-Other (embedded cost + projected SC-Other additions) unless you can justify some other rate.
- (2) Embedded SC-I (Investment less accumulated reserve as of conversion date).
- (3) New additions should be estimated for each year of the four year period. Depreciation rate on new addition is 10% annually, but only 1/2 of this annual depreciation is allowed in the first year of the addition.

APPENDIX "B"

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8341, DATED SEPTEMBER 28, 1981

Industry Study 232 Cost Analysis

| | Capitalize | Expense |
|--|------------|---------|
| <u>Material Costs (Per Unit)</u> | | |
| Protector | _____ | _____ |
| Grounding Device | _____ | _____ |
| Drop Wire | | |
| % Aerial Drops x 110' x Cost Aerial | | |
| Drop/foot | _____ | _____ |
| % Buried Drops x 150' x Cost Buried | | |
| Drop/foot | _____ | _____ |
| Inside Wire | | |
| % Residential x 30' x Cost Inside Wire/foot | | _____ |
| % Business x 45' x Cost Inside Wire/foot | | _____ |
| Jack | | _____ |
| Miscellaneous Material | 1.00 | 1.00 |
| <hr/> | | |
| TOTAL MATERIAL | _____ | _____ |
| <u>Labor Costs</u> | | |
| Service Order Charge | | |
| .5 X .3 hours X _____ per hour | | |
| Line Connection Charge | | |
| Connect Line .5 hours X _____ | | |
| per hour | _____ | _____ |
| Install Drop 1.2 hours X _____ | | |
| per hour | _____ | _____ |
| Premises Visit Charge | | |
| .5 X .5 hours X _____ per hour | | |
| Station Handling Charge | | |
| .3 hours X _____ per hour | | |
| Premises Work Charge | | |
| .7 hours X _____ per hour | | |
| <hr/> | | |
| TOTAL LABOR | _____ | _____ |
| <hr/> | | |
| * Other Charges to be included if not part of loaded labor rate. | | |
| <u>Other Charges</u> | | |
| Vehicle Charges | | |
| .5 X .5 hours X _____ per hour | _____ | _____ |
| <hr/> | | |
| TOTAL OTHER CHARGES | _____ | _____ |
| <hr/> | | |

TOTAL 232 COST

$$\% \text{ Capitalize} = \frac{(\text{Total Cost Capitalize})}{(\text{Total Cost Capitalize} + \text{Total Cost Expense})} \times 100 = \underline{\hspace{2cm}}\%$$

$$\% \text{ Expense} = 100 - \% \text{ Capitalize} = \underline{\hspace{2cm}}\%$$

APPENDIX "B"

SERVICE CHARGES

| <u>Description of Charge</u> | <u>Definition of Charge</u> | <u>Charge Amount</u> |
|--|---|----------------------|
| A) Service Order Charge (All Services) | Work operation that occurs in business office, traffic, work assignment, revenue, etc. as required by customer for work performed by telephone company. | _____ |
| B) Line Connection Charge (All Services) | Work operation required to provide link between central office and customers premises up to and including protector. | _____ |
| C) Premises Visit Charge (All Services) | Work operation requiring visit to customers premises. | _____ |
| D) Premises Work Charge Dr) (Residential) Db) (Business) | Work operation requiring the inside wiring of customers premises including wall jacks. | _____ |
| E) Station Handling Charge (All Stations) | Work operation requiring the moving, connecting, or changing of telephones. | _____ |

A) Service Order Charge=labor (.3 hours X _____ per hour) = \$ _____

B) Line Connection Charge=labor (.5 hours X _____ per hour) = \$ _____

C) Premises Visit Charge=labor (.5 hours X _____ per hour) +
vehicle charge (.5 hours X _____ per hour) = \$ _____

Dr) Residential Premises Work Charge = material (residential wire + jack + 1.00) = labor (.6 hours X _____ per hour) = \$ _____

Db) Business Premises Work Charge = material (business wire + jack + 1.00) = labor (.9 hours X _____ per hour) = \$ _____

E) Station Handling Charge = labor (.3 hours X _____ per hour) = \$ _____

APPENDIX "B"

SERVICE CONNECTION CHARGES BASED ON SERVICE CHARGES

| <u>Service Connection Charge</u> | <u>Make-up of Charge*</u> | <u>Charge</u> |
|----------------------------------|---------------------------|---------------|
| <u>Main Station -</u> | | |
| <u>Business</u> | | |
| Instrument in Place | A+C | _____ |
| Instrument Not in Place | A+B+C+Db+E | _____ |
| Initial Pre-wiring | A+C+Db | _____ |
| Pre-wiring completion | B+E | _____ |
| <u>Residence</u> | | |
| Instrument in Place | A+C | _____ |
| Instrument Not in Place | A+B+C+Dr+E | _____ |
| Initial Pre-wiring | A+C+Dr | _____ |
| Pre-wiring completion | B+E | _____ |
| <u>Extension</u> | | |
| Business | A+C+Db+E | _____ |
| Residence | A+C+Dr+E | _____ |
| <u>Moves and Changes</u> | | |
| <u>Minimum Trip</u> | | |
| Business | A+C+E | _____ |
| Residence | A+C+E | _____ |
| <u>Inside Move</u> | | |
| Main Station - Business | A+C+Db+E | _____ |
| - Residence | A+C+Dr+E | _____ |
| Extension - Business | A+C+Db+E | _____ |
| - Residence | A+C+Dr+E | _____ |
| <u>Outside Move</u> | | |
| Main Station - Business | A+B+C+E | _____ |
| - Residence | A+B+C+E | _____ |
| Extension - Business | A+B+C+E | _____ |
| - Residence | A+B+C+E | _____ |
| <u>Change Type or Color</u> | | |
| Business | A+C+E | _____ |
| Residence | A+C+E | _____ |
| Service Call | A+C | _____ |
| <u>Reconnect</u> | | |
| Business | A+C | _____ |
| Residence | A+C | _____ |

*) Charges should be based upon only the work functions actually performed.